



STATE BOARD OF EQUALIZATION

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No. 78/97

June 7, 1978

TO COUNTY ASSESSORS:

ACCOUNTING CHANGES FOR RECORDING
LEASED PROPERTY

The following discussion will be primarily of interest to your auditor-appraisers and perhaps your commercial appraisers.

The Financial Accounting Standards Board (FAS) has issued Statement No. 13, followed by Interpretation No. 19 and Statement No. 17, all affecting the generally accepted accounting principles for leased property. The procedures affect all publicly held companies and are effective for leases of both real and personal property entered into after December 31, 1976. Also, commencing in 1979, leases entered into prior to December 31, 1976, come under the procedures.

The Accounting Board's statements provide that, if any one of the following conditions are met, the lessee must treat leased property as a capital asset and the lessor treat it as a sale:

1. The present value of the minimum lease payments at the beginning of the term is 90 percent or more of the fair value of the property to the lessor at the inception date.
2. The lease term is 75 percent or more of the leased property's estimated economic life.
3. The lease contains a bargain (less than fair value) purchase option.
4. Ownership is transferred to the lessee at the end of the lease term.

If a lease meets any of the foregoing conditions, the lessee must capitalize the property as an asset at the present value of the minimum lease payments during the term of the lease.

The main problems we see being created by this accounting change are proper property statement reporting and auditing of equipment.

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The 1979 property statement is being designed to require the reporting of capital lease property as though it were normal leased property. That is, the lessor will report as though he still owns the property and the lessee will report it as leased property. This may meet resistance from the lessors and lessees since, for accounting purposes, they will have treated the property as a sale and purchase.

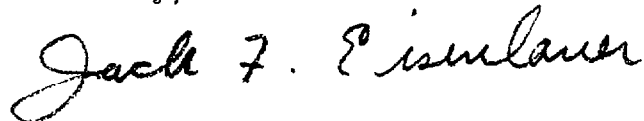
During audits you will have to inquire whether the taxpayer has assets which he has capitalized under the guidelines of FAS Statement No. 13. Otherwise, double assessments could occur since the lessor will have reported the property but the lessee will have it capitalized on his books.

This letter is not intended to discuss all the details and ramifications of the FAS statement, but only to inform you of its existence and possible problem areas. We might add that the statement also covers real property items such as shopping centers, so the commercial appraisers may wish to review the statement for the possible affect it may have on their appraisals. A copy of Statement No. 13, Interpretation No. 19, and Statement No. 17 may be obtained from:

AICPA
1211 Avenue of Americas
New York, New York 10036

Please contact Bud Florence of this Division if you have any questions.

Sincerely,



Jack F. Eisenlauer, Chief
Assessment Standards Division

JFE:cmm